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FM AMEMBASSY MOSCOW

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INFO RUFHOL/AMEMBASSY BONN PRIORITY 2116

RUFHNA/USMISSION USNATO PRIORITY 1039

RUEHRO/AMEMBASSY ROME PRIORITY 6599

RUFHFR/AMEMBASSY PARIS PRIORITY 1184

BT

C O N F I D E N T I A L MOSCOW 01198 COMBINED SECTION

E.O. 12065: GDS 01/28/88 (SEMLER, PETER) OR-E

TAGS: UR, GE, ENT, ENRG

SUBJECT: DEUTSCHE BANK REP'S COMMENTS ON NORTHERN  
- GAS PIPELINE

REF: A. MOSCOW 986, B. STATE 020284

1. (C - ENTIRE TEXT.)

2. SUMMARY. LOCAL DEUTSCHE BANK REPRESENTATIVE POINTED TO FRG WILLINGNESS NOT TO REPLACE AMERICAN SUPPLIERS (READ GE) AS THE MAIN BLOCK OF THE MOMENT TO PROCEEDING AHEAD WITH THE NORTHERN GAS PIPELINE. HE EXPRESSED SUSPICION OF FRENCH INTENTIONS, AND SAID THAT THE SOVIETS WERE DISPARAGING US SANCTIONS AS BEING TEMPORARY SINCE

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State Dept. review completed

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THEY WERE MOTIVATED BY US DOMESTIC POLITICAL CONSIDERATIONS. END SUMMARY.

3. RE QUESTION ABOUT MACHINERY SUPPLY CONTRACTS IN REF. B, DEUTSCHE BANK REPRESENTATIVE LEBAHN (PROTECT) SAID IN CONVERSATION JAN 28 THAT DEUTSCHE BANK (AND PRESUMABLY THE OTHER GERMAN BANKS) CAN ONLY FINANCE WHAT IS BEING CONSTRUCTED. AEG/KANIS CANNOT CONSTRUCT THE TURBINES IN THE ABSENCE OF THE GE MOVING PARTS. IT MAKES NO SENSE, ACCORDING TO LEBAHN, FOR AEG/KANIS TO BEGIN CONSTRUCTION OF COMPRESSORS WHILE THE TURBINE COMPONENTS REMAIN IN DOUBT. LEBAHN SAID THAT "WE" (APPARENTLY MEANING THE VARIOUS GERMAN FIRMS INVOLVED IN THE CONTRACT) ARE AS USUAL "KONTRAKTREU", FAITHFUL TO AGREEMENTS, AND WOULD THEREFORE NOT RPT NOT SEEK TO UNDERCUT THE FRG AGREEMENT NOT TO REPLACE AMERICAN SUPPLIERS. THEREFORE, WHILE GERMAN MANUFACTURERS ARE LOOKING ACADEMICALLY AT WHAT FIRMS COULD EVENTUALLY SUBSTITUTE FOR THE MISSING AMERICAN COMPONENTS, THEY DO NOT NOW FEEL THAT THEY COULD GO AHEAD EVEN IF ALTERNATIVE EUROPEAN OR JAPANESE SUPPLIERS CAME FORWARD.

4. RE ROLLS-ROYCE ALTERNATIVE: LEBAHN AND GERMAN FIRMS WOULD OBVIOUSLY VIGOROUSLY RESIST THIS ALTERNATIVE SINCE IT WOULD MEAN REDUCED CONTRACTS FOR FRG AMNUFACTURERS. IN EMBASSY VIEW, ONLY A SOVIET DECISON TO TURN TO ROLLS-ROYCE AS AN ALTERNATIVE AND AS PUNISHMENT FOR FRG WILLINGNESS TO ACCEPT US SANCTIONS WOULD MAKE THIS ALTERNATIVE VIABLE AND THEN ONLY IF ROLLS-ROYCE HAS THE DESIRE AND CAPACITY TO REPLACE THE AEG/KANIS STATIONS.

5. RE FINANCIAL ARRANGEMENTS, LEBAHN CONFIRMED THE VARIOUS PRESS ACCOUNTS REPORTING THAT THE SOVIETS HAD ASKED FOR DM 300,000,000 OSTENSIBLY TO COVER THE 15 PERCENT DOWN PAYMENT AGREED UPON FOR THE PIPELINE. HE REMARKED THAT SEEKING TO FINANCE DOWNPAYMENT REQUIREMENTS AT COMMERCIAL FINANCING TERMS WAS A WELL-ESTABLISHED SOVIET PRACTICE. HAD

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THE SOVIETS ASKED FOR THE CREDITS IN NOVEMBER, THEY WOULD HAVE BEEN GRANTED WITHOUT HESITATION. DEUTSCHE BANK AND THE OTHER GERMAN BANKS WOULD HAVE PROBABLY ASKED FOR RATES OF ONE PERCENT ABOVE LABOR, AMOUNTING TO A ROUGHLY 15 PERCENT INTEREST RATE. IN LIGHT OF MARTIAL LAW IN POLAND AND THE ALLIANCE REACTION, THE GERMAN BANKS WILL NOT PROVIDE THE CREDITS, AND THE SOVIETS WILL HAVE TO COME UP WITH THE 15 PERCENT FOR THE FINANCING PROCESS TO START ROLLING.

6. THE SOVIETS ARE TELLING GERMAN BANKS AND FIRMS HERE THAT THE US SANCTIONS WILL NOT LAST LONG, THAT THEY WERE DICTATED NOT BY FOREIGN POLICY BUT BY DOMESTIC POLITICAL CONSIDERATIONS. THEY EXUDE OPTIMISM THAT THE PROJECT WILL BE MOVING AGAIN SOON. SOVIETS TELL LEBAHN AND PROBABLY OTHER GERMANS THAT A U.S. GRAIN EMBARGO WOULD BE A CATASTROPHE FOR THEM, BUT IS TOTALLY UNTHINKABLE BECAUSE OF DOMESTIC POLITICAL CONSIDERATIONS IN THE UNITED STATES. IN ESSENCE, THE SOVIETS ARE ASKING THE WEST GERMANS NOT TO TAKE U.S. ACTIONS

SERIOUSLY, A POSITION WE WOULD EXPECT THEM TO TAKE UNDER THE CIRCUMSTANCES.

7. AS ALWAYS, LEBAHN AND HIS COLLEAGUES ARE SOUR AT WHAT THEY SEE AS THE USUAL FRENCH TENDENCY TO MAKE RINGING MORAL STATEMENTS ABOUT WORLD ISSUES SUCH AS POLAND BUT TO CAVE WHENEVER MONEY IS INVOLVED FOR FRENCH INDUSTRY. THUS, THE GERMANS THINK THAT THE FRENCH WILL NOT HONOR THE PRINCIPLE OF NOT REPLACING AMERICAN SUPPLIERS. LEBAHN STILL SMARTS OVER THE POST-AFGHANISTAN EXERCISE IN WHICH KLOECKNER WENT AHEAD WITH THE ALUMINUM PROJECT AT SAYANSK BECAUSE THE MISSING ALCOA TECHNOLOGY WAS REPLACED BY SOVIETS, NOT BY GERMAN FIRMS, WHILE THE FRENCH SIMPLY OBTAINED FOR CREUSOT-LOIRE THE SIGNED ARMCO STEEL PROJECT FOR THE ELECTRIC STEEL PLANT AT NOVOLIPETSK SUBSTITUTING FRENCH TECHNOLOGY.

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8. EMBASSY COMMENT. SOME DISCOUNTING OF LEBAHN'S VIEWS IS IN ORDER GIVEN THE ATLANTICIST VIEWS HE AND HIS CHAIRMAN HOLD. KNOWING SOME OF THE LOCAL GERMAN REPS INVOLVED, WE SUSPECT THAT AEG/KANIS AND MANNESMANN ARE DOING MORE THAN WRINGING THEIR HANDS GIVEN THE IMPORTANCE OF THE PIPELINE ORDERS FOR THEIR FIRMS. THE SOVIETS ARE OF COURSE RUNNING TRUE TO FORM IN DISPARAGING AMERICAN SANCTIONS AND IN HINTING THAT THE FRENCH OR THE JAPANESE ARE QUITE WILLING TO PROFIT FROM ANY MISPLACED FRG WILLINGNESS TO RESPECT ALLIANCE COMMITMENTS.

9. REFTELS ARE BEING REPEATED TO EMBASSIES ROME AND PARIS. ZIMMERMANN

END OF MESSAGE

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